

## Message Text

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ACTION EA-14

INFO OCT-01 ISO-00 AGR-20 CIAE-00 COME-00 EB-11 INR-10

LAB-06 NSAE-00 RSC-01 SIL-01 SCEM-02 INT-08 OMB-01

TRSE-00 DODE-00 PM-07 H-03 L-03 NSC-10 PA-04 PRS-01

SPC-03 SS-20 USIA-15 CIEP-02 AID-20 IGA-02 DRC-01

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R 041048Z JAN 74

FM AMEMBASSY BANGKOK

TO SECSTATE WASHDC 9461

INFO AMEMBASSY JAKARTA

AMEMBASSY KUALA LUMPUR

AMEMBASSY PHNOM PENH

AMEMBASSY SAIGON

AMEMBASSY SINGAPORE

AMEMBASSY TOKYO

AMEMBASSY VIENTIANE

AMCON HONG KONG

C O N F I D E N T I A L SECTION 1 OF 2 BANGKOK 0206

EO 11652: GDS

TAGS: ECON

SUBJECT: ASSESSMENT OF SANYA GOVERNMENT'S ECONOMIC PERFORMANCE

1. SUMMARY. ALTHOUGH BROUGHT TO POWER BY POLITICAL CAUSES AND WITH A MANDATE OF PRIMARILY POLITICAL GOALS, SUCH AS A NEW CONSTITUTION AND FREE ELECTIONS, THE SANYA GOVERNMENT'S MOST SERIOUS CHALLENGES HAVE BEEN ECONOMIC. TWO OF THEM--OIL AND INFLATION--HAVE ORIGINATED OR BEEN INFLUENCED FROM ABROAD AND ARE INTERNATIONAL IN SCOPE. ALTHOUGH THE GOVERNMENT HAS MOVED SLOWLY IN DEALING WITH THESE PROBLEMS, ITS PERFORMANCE SO FAR MUST BE JUDGED FAVORABLE. OF GREAT ASSISTANCE TO IT IN MEETING THE OIL CRISIS ARE THE FAVORABLE LEVEL OF ITS FOREIGN EXCHANGE  
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RESERVES AND THE VERY PROMISING OUTLOOK FOR EXPORT EARNINGS, PROVIDING THE NECESSARY SHIPPING CAN BE OBTAINED. OTHER AREAS THAT WILL TEST THE GOVERNMENT'S ABILITY AND RESPONSIVENESS ARE PENDING REVISIONS IN THE LABOR LAWS,

THE PREPARATION OF THE FY75 BUDGET, AND CONTINUED INFLATION-ARY PRESSURES THAT COULD SPARK A NEW OUTBREAK OF STRIKE ACTIONS. END SUMMARY.

2. ALTHOUGH THE SANYA GOVERNMENT CAME INTO OFFICE WITH ONE OVERRIDING POLITICAL GOAL--PREPARATION FOR AN ELECTED, CONSTITUTIONAL GOVERNMENT--ITS MOST DIFFICULT DAY-TO-DAY PROBLEMS HAVE BEEN ECONOMIC. SOME, SUCH AS INFLATION AND WIDESPREAD STRIKES, PREDATE THE GOVERNMENT'S ASSUMPTION OF POWER. ANOTHER, THE PETROLEUM CRISIS, HAS BEEN CAUSED BY EVENTS EXTERNAL TO THAILAND.

3. ALTHOUGH THE SANYA GOVERNMENT HAS CLEARLY PREFERRED TO FOLLOW RATHER THAN LEAD PUBLIC OPINION IN DEALING WITH L

CONOMIC PROBLEMS, ITS RECORD OF ACTIONS TAKEN IS NEVERTHELESS COMMENDABLE. FOR EXAMPLE, IT HAS OBTAINED WIDE REACHING POWERS TO DEAL WITH THE OIL CRISIS, INCLUDING AUTHORITY TO INSTITUTE RATIONING SHOULD THE NEED ARISE, IT HAS TAKEN STEPS TO FREE THE RICE TRADE FROM SOME OF THE PREVIOUS GOVERNMENT'S RESTRICTIONS BUT AT THE SAME TIME HAS ACTED TO PREVENT RICE FROM FLOWING OUT OF THE COUNTRY AT AN UNRESTRICTED RATE WITH CONSEQUENT SEVERE UPWARD PRESSURE ON DOMESTIC PRICES.

LHT HAS ADJUSTED A VARIETY OF TAXES TO ASSURE GREATER EQUITY IN SHARING THE TAX BURDEN; IT HAS MADE A DECISION TO PROCEED WITH THE NORTHROP SECOND INTERNATIONAL AIRPORT CONTRACT DESPITE STRONG OPPOSITION FROM ELEMENTS WITHIN AND OUTSIDE THE GOVERNMENT, INCLUDING IN PARTICULAR THE STUDENTS; IT HAS BEEN SUCCESSFUL, AT LEAST FOR THE TIME BEING, IN ITS ADMONISHMENTS TO WORKERS TO SHOW GREATER RESTRAINT IN THEIR STRIKE ACTIONS, AND HAS ACCOMPANIED THESE WITH WORDS OF SYMPATHY FOR THOSE ON LOW INCOMES IN A PERIOD OF RISING PRICES; IT MADE THE DECISION TO MAKE EFFECTIVE ON JANUARY 1 THE FIRST WORKMEN'S COMPENSATION LAW EVER IN THAILAND DESPITE STRONG BUSINESS OPPOSITION. MORE RECENT, AND CONFIDENTIAL

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WITH RESULTS NOT YET EVIDENT, HAVE BEEN ITS ADMONISHMENTS AND THREATS OF PUNISHMENT TO PROFITEERING MERCHANTS IN A TIME OF PRICE INCREASES AND SUPPLY STRINGENCY.

4. IN ASSESSING THE ACTIONS OF INDIVIDUAL MINISTRIES TO COPE WITH DOMESTIC AS WELL AS FOREIGN-INDUCED ECONOMIC PROBLEMS, THE BASIC STRUCTURE OF THE THAI BUREAUCRACY HAS TO BE KEPT IN MIND. UNITS OF THE THAI GOVERNMENT ARE STILL OFTEN INDEPENDENT SATRAPIES WHOSE POWER AND INFLUENCE DEPEND NOT ON THE INSTITUTIONAL STRENGTH OF THE UNIT ITSELF, BUT ON THE POWER AND INFLUENCE OF THE MAN WHO HEADS THE UNIT. AUTHORITY IS FREQUENTLY OVERLAPPING AND PROGRAMS OFTEN DUPLICATE OR CONTRADICT EACH OTHER. THERE IS ALSO

A LACK OF AUTHORITY OR WILL TO MAKE DECISIONS EVEN AT THE VERY HIGHEST LEVELS OF GOVERNMENT. THE CABINET HOLDS ITS ONCE-A-WEEK MEETING ON TUESDAY AT WHICH TIME MANY MATTERS ARE ACTED UPON COLLECTIVELY THAT IN OTHER GOVERNMENTS WOULD BE LEFT TO THE PERTINENT CABINET MEMBERS. NOTHING HAS HAPPENED SINCE OCTOBER 14 TO SUGGEST THAT BASIC CHANGES HAVE BEEN MADE IN THE TRADITIONAL PROCEDURES OF THE THAI BUREAUCRACY. NEVERTHELESS, MINISTER OF FINANCE BOONMA WONGSAWAN, WHO REPORTEDLY HAD RESIGNED FROM HIS POSITION OF UNDER SECRETARY OF STATE FOR FINANCE BECAUSE OF POLICY DIFFERENCES WITH THE THANOM-PRAPHAT GOVERNMENT, HAS INSTITUTED TAX CHANGES INTENDED TO INTRODUCE GREATER EQUITY INTO THE SYSTEM. SEVERAL LESS ATTENTION CATCHING ACTIONS IN THE MINISTRY OF COMMERCE INCLUDE FREEING PARTS OF THE TRADE SECTOR OF THE ECONOMY, PARTICULARLY RICE, FROM GOVERNMENT CONTROLS. THESE STEPS ACCORD WITH AND VERY PROBABLY WERE INFLUENCED BY THE VIEWS OF DEPUTY MINISTER CHAROEN, A FORMER BUSINESSMAN.

5. GREATLY ADDING TO THE PRSTIGE AND AUTHORITY OF THE SANYA GOVERNMENT IN ECONOMIC AFFAIRS HAS BEEN ITS REPUTATION FOR HONESTY, THE GENERAL COMPETENCY OF ITS MEMBERS, AND THE DEMONSTRATED SINCERITY OF THE PRIME MINISTER. IN RESPONSE TO HIS APPEALS, STRIKE ACTIVITY HAS ABATED MARKEDLY AND THE PRESS HAS EVEN REFRAINED FROM CARRYING AS NEWS ITEMS WORK STOPPAGES (NOW SETTLED) IN SUCH CONSPICUOUS COMPANIES AS FORD, GENERAL MOTORS AND A LARGE TEXTILE FACTORY.

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6. MAJOR PERSISTING PROBLEMS THAT WILL CONTINUE TO CONFRONT THE SANYA GOVERNMENT DURING THE BALANCE OF ITS TENURE ARE:

A. OIL. THE CONSEQUENCES OF THE OIL SHORTAGE ARE NOT YET FULLY EVIDENT, AND IN ANY EVENT WILL BE DETERMINED IN PART BY ACTIONS LARGELY BEYOND THAILAND'S CONTROL. THE GOVERNMENT IS TAKING STEPS, THOUGH BELATEDLY, TO ASSURE THAT OIL SUPPLIES ARE ALLOCATED ACCORDING TO A SYSTEM OF PRIORITIES. FOR EXAMPLE, EXPORTS REPORTEDLY ARE PILING UP ON VARIOUS DOCKS BECAUSE OF A SHORTAGE OF SHIPPING CAUSED AT LEAST IN PART BY INABILITY TO OBTAIN BUNKERS IN THAILAND. GOVERNMENT IS ALSO EXERTING ITSELF MIGHTILY THROUGH THE EFFORTS OF ITS PERIPATETIC DEPUTY FOREIGN MINISTER TO OBTAIN ASSURANCES OF ADDITIONAL OIL FROM SAUDI ARABIA IN PARTICULAR AND FROM PRC. LATTER HAS AGREED TO PROVIDE 50,000 METRIC TONS DIESEL OIL ON ONE TIME BASIS AT "FRIENDLY" PRICE AND HAS HELD OUT PROSPECTS OF ADDITIONAL AMOUNTS AT HIGHER PRICE. FAVORABLE LEVEL OF FOREIGN EXCHANGE RESERVES AND PROMISING OUTLOOK FOR FOREIGN EXCHANGE EARNINGS FROM AGRICULTURAL EXPORTS IN PARTICULAR WILL EASE PROBLEM OF PAYING FOR SHARPLY INCREASED COST OF OIL.

B. INFLATION. UPWARD PRESSURES ON PRICES CAN BE EXPECTED  
TO CONTINUE AS LONG AS WORLD TREND IN THIS DIRECTION.

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HIGHER OIL COSTS ALSO HAVE NOT YET BEEN REGISTERED THROUGH-  
OUT ECONOMY. HOWEVER, DOMESTIC RICE PRICE, WHICH SO IMPORTANT TO  
LOW INCOME GROUPS, SHOULD REMAIN STABLE AND LOGICALLY SHOULD  
DECLINE SOMEWHAT AS FAVORABLE 1973 CROP MOVES INTO MARKETING  
CHANNELS. NEVERTHELESS, CONTINUED HIGH WORLD DEMAND FOR THAI RICE  
AT PRICES SUBSTANTIALLY ABOVE DOMESTIC LEVELS WITH EXERT UPWARD  
PRESSURE, ALTHOUGH THIS WILL BE BALANCED TO SOME EXTENT BY LARGE  
GOVERNMENT RESERVES DERIVED FROM REQUIREMENT THAT EXPORTER MUST  
SELL ONE TON TO GOVERNMENT AT FIXED PRICE FOR EACH TONE EXPORTED  
AT FREE PRICE. MINISTER OF COMMERCE HAS EXPRESSED SUPPORT IN  
PRINCIPLE FOR STUDENT ORGANIZED CAMPAIGN TO DISCOURAGE BUYING  
OF LUXURY GOODS. GOVERNMENT COULD ALSO TAKE STEPS TO RESTRICT  
IMPORTS OF NON-ESSENTIALS BUT BELIEVE IT WILL DO SO ONLY IN CASE  
OF DIRE EMERGENCY.

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C. LABOR UNREST. TREND OF PRICES WILL CONTINUE TO EXERT DIRECT INFLUENCE ON LABOR ATTITUDES. ADDITIONAL STRIKES SHOULD BE ANTICIPATED, BUT NOT AT HIGH LEVEL THAT FOLLOWED MID-OCTOBER OVERTURN OF GOVERNMENT, PROVIDING ALWAYS THAT PRICES FOR RICE AND OTHER ESSENTIALS DO NOT COMPLETELY ERODE RECENTLY WON WAGE INCREASES. ALSO THE OIL SHORTAGE, DEPENDENT ON ITS SEVERITY, COULD EASILY INCREASE UNEMPLOYMENT AND THUS ADD TO LABOR UNREST. IN ADDITION TO ACTION OF THE GOVERNMENT TO PUT INTO EFFECT ON JANUARY 1 THE WORKER'S COMPENSATION LAW, LABOR AND ITS SUPPORTERS CAN ALSO BE EXPECTED TO PRESS FOR ADDITIONAL CHANGES IN THE 1973 LABOR LAW TO MAKE IT MORE FAVORABLE TO THE EMERGING LABOR MOVEMENT.

D. FARMER DISSATISFACTION. PUBLIC SYMPATHY EXISTS FOR RAISING LOW FARM INCOMES. HOWEVER, SANYA GOVERNMENT WILL NOT BE IN POWER LONG ENOUGH TO UNDERTAKE MAJOR REFORMS. MOREOVER, ITS INCLINATION TO PROCEED SLOWLY WILL BE STRENGTHENED BY THE LARGER 1973 CROP AT FAVORABLE PRICES. FARMERS AS A RESULT WILL BE FINANCIALLY WELL OFF, UNTIL AT LEAST MID-1974. HIGHER COSTS FOR FARM IMPORTS WILL ALSO BE THE RULE, AND SHORTAGES OF FERTILIZER AND OIL ARE VIRTUALLY CERTAIN, BUT THAI FARMERS ARE LESS DEPENDENT ON THESE THAN IN MANY OTHER COUNTRIES.

E. BUDGET PREPARATION. THE FY 1975 BUDGET MUST BE PREPARED AND PRESENTED TO NATIONAL ASSEMBLY BEFORE THE SANYA GOVERNMENT IS REPLACED IN MID-1975. PAST GOVERNMENTS HAVE TENDED TO OVER-REACT TO DECLINES IN FOREIGN EXCHANGE RESERVES BY CUTTING BACK ON GOVERNMENT SPENDING TO PROTECT THEM. BECAUSE OF THE DANGER OF INCREASED UNEMPLOYMENT AND CONSEQUENTLY OF LABOR UNREST THAT WOULD RESULT, PLUS OTHER REASONS SUCH AS THE VIEWS OF THE FINANCE MINISTER, FOR EXAMPLE, IT IS NOT LIKELY THAT THE SANYA GOVERNMENT WILL BE SO STRONGLY INFLUENCED BY PRECEDENT. HIGHER OIL PRICES WILL CAUSE SOME STRAIN ON RESERVE LEVELS BUT INCREASED EXPORT INCOME WILL PROVIDE AT LEAST PARTIAL COMPENSATION.

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## Message Attributes

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